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UNCLAS CAIRO 002957

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SUBJECT: GOE MONETARY POLICY COORDINATING COUNCIL HOLDS  
FIRST MEETING

REF: CAIRO

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1. (U) The Monetary Policy Coordinating Council of the Central Bank of Egypt (CBE) held its first meeting on April 10, 2005. The Council discussed a work plan to maintain price stability and increase economic growth rates. It also reviewed monetary, financial and economic developments in Egypt and abroad.

2. (U) Following the meeting, the Cabinet spokesman stated that the Council had agreed on four points:

- The CBE's independence in formulating and implementing monetary policy and the Council's full support for the CBE's inflation targeting policy, which is aimed at ensuring price stability and increased real economic growth rates.

- The Council's full support for the CBE's foreign exchange policies, which are aimed at stabilization of the foreign exchange market and exchange rates and elimination of the parallel market.

- The periodic issuance by the CBE of a detailed monetary policy statement, in accordance with the Bank's rules of transparency and disclosure, beginning in May 2005.

- The next meeting of the Council, which will take place in July 2005 and will review monetary and financial policy and economic developments.

3. (SBU) Comment: Although the Council issued a statement affirming CBE's independence in determining monetary policy, many observers point to the existence of the Council itself as evidence to the contrary. The main concern is the possibility of government interference, particularly from the Ministry of Finance, in the CBE's setting of interest rates. Observers point to the timing of the Council's first meeting as an indication that this is the Council's real purpose. Although the Council was mandated in Banking Law No. 88 of 2003, it was only appointed in January 2005 and met for the first time last week. The meeting coincides with a period of rising interest rates internationally and excess liquidity in the Egyptian market, factors that would call for a rise in CBE's rates. Such a rise, however, would increase the cost to the GOE of funding its deficit.

4. (SBU) Comment continued: As reported in reftel, the GOE members of the Coordinating Council are all reform-minded and supportive of the CBE's current monetary policies. The timing of the Council's "operationalization" may therefore be intended, as the GOE claims, to strengthen the recent success of CBE management in reforming monetary policy. On the other hand, as the private sector fears, it may be intended to keep CBE management from becoming too independent. Given the GOE's need for inexpensive financing to fund its deficit, and the sensitivities surrounding possible cuts in fiscal spending right before an important election, the latter explanation bears keeping in mind as we watch interest rate policy in the months ahead.

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GRAY